2006

GENDIS INC.

Annual Report
For the year ended January 28, 2006

COMPANY PROFILE

The evolution of Gendis Inc. dates back to 1939 with the founding of General Distributors, an importing distribution firm. The company was incorporated as General Distributors of Canada Ltd. in November 1962, and was subsequently re-named Gendis Inc. in 1983.

Through most of its recent history the Company had been principally involved in the retail merchandising industry. On December 16, 2004, the Company sold its investment in Saan Stores Ltd. and consequently exited the retail general merchandising industry.

Gendis is currently active in investment management, and in real estate leasing and management through its division, Gendis Realty.

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ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held Friday, June 2, 2006 at 11:00 a.m. CDT at the offices of Gendis Inc., 1370 Sony Place, Winnipeg, Manitoba

CHAIRMAN'S LETTER TO THE SHAREHOLDERS

The past fiscal year ended January 2006 saw the new ownership group of SAAN Stores relocate the headquarters of the retail chain to Toronto. The vacancy of the Winnipeg headquarters resulted in Gendis having approximately 400,000 square feet of office and warehouse available for suitable tenants in our largest real estate asset.

Our Gendis offices will continue in the present location, as over the past 35 years when the Winnipeg signature building was built and first occupied to house the Sony of Canada Ltd. Head Office. The first tenant for approximately one-quarter of the space will take possession May 1, 2006 and we have continued interest for the remaining space.

In May of 2005, we were approached by Southeast Management of Memphis, U.S.A. who owned 3.3 million shares of Gendis. The Cohen Family struck a mutually satisfactory price and on May 31, 2005, a transaction was concluded. The result was that control now, and for the future, of Gendis remains in Canadian ownership.

When Gendis distributed, as a dividend, most of its investment in Fort Chicago in two tranches to the then Gendis shareholders, some of the long-time shareholders either held these shares and became shareholders of Fort Chicago Partnership units or cashed out these shares according to their wishes. As a result, the Cohen family and Gendis Inc. became the largest individual shareholders of Fort Chicago. The main interest of Fort Chicago is a 50% ownership of the Alliance Pipeline. Alliance has a long-term contract to transport gas from Fort St. John to Chicago, Illinois.

The real estate assets that remain in Gendis Inc. as of this date consist of the head office premises in Winnipeg, and 8 other properties across Canada leased to SAAN Stores and other non-related tenants. None of these properties are mortgaged.

Also, as outlined in the following Annual Report, we are expecting a decision within the near term with regard to our appeal in the Manitoba Appeal Court with reference to the tax re-assessment of $28 million.

Together with cash on hand and investments, which Gendis has made, as outlined in our Annual Report, our objective is to establish a portfolio to grow over the future years to reward our shareholders.

The investment portfolio (including owned real estate) should provide an after tax return in excess of inflation-adjusted expenses. As the Cohen family collectively owns about 67% of Gendis, it is in the interest of not only the largest shareholders but also all Gendis shareholders to look forward to a new and successful Gendis.

In closing, I wish to welcome our two new Directors, Bob Chipman and Gordon Webster who will work closely with our lead director, Jerry Gray and with Lawrie Pollard.

Mr. Barry Steers, who was the longest serving Canadian Ambassador to Japan post-war, after 17 years of serving as a director of Gendis, has announced his retirement. I personally wish to thank him on behalf of all of us at Gendis for his loyalty in some of the past difficult years.

Yours sincerely,

Albert D. Cohen
Chairman, President and Chief Executive Officer

GENDIS INC.
Management's Discussion & Analysis
For the year ended January 28, 2006

***NOTICE** – Presentation and Review of the Management's Discussion & Analysis*

This annual and fourth quarter Management's Discussion and Analysis should be read in conjunction with the audited annual financial statements for the year ended January 28, 2006. Financial information presented in this Management's Discussion and Analysis have been derived from financial statements denominated in Canadian dollars that are prepared in accordance with accounting principles generally accepted in Canada and follow the same accounting policies and methods of application as the audited annual financial statements at January 28, 2006. This Management's Discussion & Analysis has been reviewed and approved by the Board of Directors of Gendis Inc. ('the Company') on April 7, 2006.

***NOTICE** – Forward-Looking Information*

This Management's Discussion and Analysis contain forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and anticipated future developments. Forward-looking statements should not be read as guarantees of future performance and will not necessarily be accurate indications of whether such performance or results will be achieved. There are risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the forward-looking statements. Factors that could cause such differences include general risks relating to the real estate and investments and the matters described under "Risk Factors" in the Annual Information Form.

Additional information and the Annual Information Form

Additional information about Gendis Inc. and the Annual Information Form are available on SEDAR at www.sedar.com.

As used herein "Gendis" or the "Company" or the "Corporation" refers to Gendis Inc., "Saan" refers to Saan Stores Ltd., a former subsidiary of Gendis Inc.; "Fort Chicago" refers to Fort Chicago Energy Partners L.P., "Thunder" refers to Thunder Energy Trust. Fort Chicago and Thunder are investments of Gendis Inc.

The Chief Executive Officer and the Chief Financial Officer have concluded, based on their evaluations, that the Corporation's disclosure controls and procedures are sufficiently effective to provide reasonable assurance that material information has been disclosed in the Corporation's annual filings for the year ended January 28, 2006.

Corporate segment

In the 4th quarter, investment income increased $1.4-million over the comparable prior year quarter, primarily from the increased share of earnings of Fort Chicago, net of a $0.3-million share of loss of Thunder, an income trust investment acquired in the year.

On a year-to–date basis, revenue from investment income increased by $2.8-million over the comparable prior year. Fort Chicago had a significant capital transaction in the 2nd quarter at an average unit value substantially in excess of the unit carrying value of the Company's investment in Fort Chicago. As the Company did not participate in this capital transaction, the variance in unit values provides a dilution gain of $1.4 million as additional investment income to the Company. Although dilution gains may be expected to re-occur in the future, the magnitude of this capital transaction could be expected to re-occur infrequently. The Company's share of earnings from Fort Chicago's operations increased by $1.6-million. The Company's share of loss of Thunder, an investment acquired in the second half of the year, was $0.2-million.

Investment purchases in the 4th quarter of the year were $5.0-million. Proceeds from investment sales in the quarter were $2.7-million generating gains of $0.7-million. The investment sales were made to crystallize a portion of the significant inherent gains in the Fort Chicago and Opti investments.

Investment purchases for the year were $15.9-million, including a $1.3-million investment in Fort Chicago to complete the establishment of a core holding of between 2.0-million to 2.5-million units of that security. The cost of the total investment portfolio increased in the year from $18.8-million to $32.3-million. In the 2nd quarter of the current year, the Company purchased an investment in Mustang Resources Inc. and Thunder Energy Inc. for $1.8-million. These two companies and Forte Resources Inc., through a Plan of Arrangement were reorganized as Thunder Energy Trust, Ember Resources Inc. and Alberta Clipper Energy Inc. Subsequent to the Plan of Arrangement, Gendis Inc. increased its investment in these resultant companies by $7.7-million. The investment in Thunder, an income trust, and the increase in the investment in Fort Chicago were to provide a source of investment income and to provide cash from regular monthly distributions. The investments in the other companies were based on good prospects for capital appreciation in the medium and longer term. Proceeds from investment sales for the year were $4.4-million, generating gains of $1.2-million. The investment sales were made to crystallize a portion of the significant inherent gains in the Fort Chicago and Opti investments. During the year ended January 29, 2005, the Company acquired an investment in Opti Canada Inc. for $1.0-million and increased its investment in Fort Chicago by purchasing additional units for $2.1-million.

At the prior year ended January 29, 2005, the current assets of the Company included a $2.0-million deposit held in escrow. On May 3, 2005, the escrow conditions were met and consequently the funds were advanced to Saan. During the current year, Gendis did not receive scheduled payments as Saan experienced delays in negotiating with its primary lender to convert its restrictive debtor in possession financing to emergence financing. On January 25, 2006, Saan achieved re-financing arrangements with all of its lenders. The note receivable from Saan is repayable $50,000 per month, principal and interest, commencing May 1, 2006. Any outstanding principal and interest is fully repayable on April 9, 2009. The Company presently considers that Saan is a viable operation and accordingly, no provision for non-collection has been made.

At the current year-end, the Company's investments had a fair market value of approximately $41.1-million, which is $7.8-million in excess of the carrying value. This represents an unrealized appreciation of approximately $0.51 per share. The Company's investments appreciated in value by $0.3-million in the 4th quarter in addition to providing $0.8-million in cash from distributions. For the year, investments appreciated in value by $0.5-million in addition to providing $2.6-million in cash from distributions. At April 7, 2006, the Company's investments have a fair market value of approximately $44.0-million, which is $9.0-million in excess of the carrying value. This represents an unrealized appreciation of approximately $0.59 per share.

In the 4th quarter of the year, Corporate expenses increased $0.2-million over the comparable quarter last year, an increase of $0.2-million year-to-date. The increase is primarily due to significant legal costs associated with the ongoing dispute with the Canada Revenue Agency on the income tax re-assessment.

In the 4th quarter last year, the Company recorded restructuring credits of $0.8-million representing recoveries from the Trustee of a former bankrupt subsidiary of the Company, a reduction to the provision for related expenses and settlements with landlords on lease terminations. This matter is substantially concluded and further credits or costs are not expected in the future.

Realty segment

At year end, the Company owns six real estate properties that are solely leased as retail outlets to the Company's former Retail segment, Saan, two real estate properties where Saan is a tenant with other commercial tenants and a vacant head office and distribution centre formerly leased to Saan. Revenue from continuing operations from the rental of real estate increased primarily as a consequence of rentals subsequent to the sale date from the former Retail segment being classified as revenue from an external party. This revenue is not eliminated on consolidation as would be required for inter-segment revenue prior to the sale date. For the period in the prior year to the sale date, $1.7-million in revenue from rent and recoverable costs from Saan were eliminated on consolidation. The elimination of inter-segment revenue has the effect of a reducing reported profit for Continuing Operations pertaining to the Realty segment and reducing the reported loss in the Retail segment.

In the 1st quarter this year, as a consequence of Saan's creditor protection proceedings, Saan repudiated the lease of the Company's head office and distribution centre in Winnipeg, MB. Consequently, $1.3 million from rent and

recoverable costs annually from Saan is foregone until such time as another tenant or tenants are secured, or the property is sold. The Company has received numerous expressions of interest for either lease or sale. The Company's focus had been to target for one or two tenants that have a distribution or warehousing requirement. The Company is now evaluating alternatives for redeveloping the site for multiple tenants with a view to revenue maximization. The status of this property is expected to be resolved in fiscal 2007.

As a further consequence of Saan's creditor protection proceedings, the Company also re-negotiated lease terms for the other properties where Saan was a tenant operating a commercial retail outlet. The Company agreed to a reduction in basic rents, percentage rent rates and recoverable costs. The reduction to annual revenue is estimated to be approximately $100,000. The Company also agreed to a three month rent free period to assist Saan in its re-merchandising of the retail outlets. This concession is estimated to be approximately $100,000 and will be reflected as reduced revenue over the term of the leases. Saan intends to reformat and alter the merchandise assortments to significantly increase sales volumes in the retail outlets. The increase in sales volume could provide additional rents that would significantly mitigate the concessions made.

Realty expenses increased $0.3-million year-to-date. The increase is primarily from property taxes and vacancy costs for the head office and distribution centre formerly leased to Saan that became vacant in the 2nd quarter of the current year. In the prior year, these costs were recoverable from Saan. As Saan was a related party then, the costs were eliminated on consolidation against related party intersegment real estate revenues, with no net effect on consolidated net earnings. There is no counterpart for this accounting in the current period, as Saan is not related.

In the 4th quarter the Company wrote down the carrying value of one property by $0.1-million. Last year, the Company wrote down the carrying value of two properties by $0.8-million. The properties were written down to a fair market value based on the greater of applying a capitalization rate to the expected annual cash flow from the properties and the expected sale value, net of selling costs, if the properties were vacant. The capitalization rate selected was typical for properties of a similar type and location.

Discontinued operations - real estate assets held for sale

In the 3rd quarter of last year, the Company concluded the sale of a parcel of five properties to Manitoba Hydro. One of the properties had been owned since the early 1960's, two of the properties since the late 1980's and two properties were purchased within two years of the sale date. The net proceeds of the sale were $14.0-million after transaction costs, generating a gain of $6.7-million after applicable income taxes. Transaction costs included costs to compensate tenants for lease termination and relocation costs, legal fees, and the cost of securing additional property, including municipal back lanes to assemble the site to the purchaser's specifications.

Discontinued operations - Retail segment

In the 1st quarter of last year, the Company engaged retail consultants to provide an independent assessment of the strategic initiatives of its Retail segment, Saan. In the 2nd quarter of last year, the Company decided to initiate the solicitation of offers from prospective purchasers for its Retail segment while assessing the costs and resources required for strategic alternatives to return the business to profitability. Also in the 2nd quarter of last year, the Company concluded that it was not in the best interest of its shareholders to commit additional financial and other resources beyond the $10-million advanced to counter the significant deterioration of cash flows from the operations of the Retail segment. Accordingly, the Company decided to sell the Retail segment, with a purchaser assuming the responsibility of sponsoring the Company's Defined Benefit Pension Plan. The membership of the Defined Benefit Pension Plan is substantially comprised of active employees and retired employees of the Company's current and previous retail segments. In the 2nd quarter of last year, the Company commenced negotiating with several prospective purchasers and closed the sale transaction for the Retail segment along with the transfer of the sponsorship of the Pension Plan on December 16, 2004.

Interest expense

Interest expense on continuing operations was incurred for borrowings on credit facilities with its banker and from a margin account with its investment broker. Access to the bank credit facility may be by direct loan or by banker's acceptance. The interest rate on direct loans is the prime rate as established from time to time by the bank. The

acceptance fee on banker's acceptances is 0.9% while the interest rate on a banker's acceptance is determined by the prevailing market conditions, typically 180 basis points below prime. The interest rate on the investment margin account is approximately bank prime rate plus 0.75%. Last year, interest expense on Continuing Operations was incurred in the comparable quarter last year for short-term borrowings on a bank loan at bank prime rates. Interest expense for the 4th quarter was $55,000 compared to $24,000 for the 4th quarter last year.

Income taxes

The current income tax recovery of $9,000 for the year primarily represents a reduction to an estimated provision for uncertain tax exposures net of $157,000 of foreign taxes paid on investment income from Fort Chicago. The Company did not incur Large Corporation's Tax in the current year as the Company is within standard exemption thresholds. In the 2nd quarter of the current year, the future income tax credit of $3.0-million is a consequence of the change in the control of the Company as commented on under the Future Tax Asset section. The future tax credit was reduced in the 4th quarter by $1.4-million based on a re-evaluation of the expected realization of non-capital loss carry forwards and a decline in the market value of the investments since the change of control.

At January 28, 2006, there is a potential of $1.3-million of future tax assets that have not been recognized pertaining to non-capital loss carryforwards, as the Company is not reasonably assured of recovery.

Income taxes for last year for Continuing Operations primarily represents $0.4-million of future tax asset recorded in the 4th quarter of the year and Large Corporation's Tax of $24,000.

In conjunction with the change in control as commented on under the Future Tax Asset section, the Company is deemed to be a "Subject Corporation" for purposes of the Income Tax Act. Accordingly, the Company incurred $336,000 of Refundable Part IV tax on its dividend income. This tax is recorded as a direct charge to Retained Earnings and is recoverable upon the payment of dividends by the Company to its shareholders.

Future Tax Asset

On May 31, 2005, Mr. Albert D. Cohen assumed control of the Company. The change in control had the following effect on the Company's tax basis of loss carryforwards and capital properties. The tax basis of the Company's investment in an inactive subsidiary company was written down to nil. The subsidiary company had a significant tax basis. Also, approximately $3-million of capital loss carryforwards expired. To recoup lost tax basis, the Company elected to increase the tax basis of its investments and real estate. Consequently, the Company recorded an increase of $3.0 million in its Future Tax Asset in the 2nd quarter of the year. The Future Tax Asset was reduced in the 4th quarter by $1.4-million based on a re-evaluation of the expected realization of non-capital loss carry forwards and a decline in the market value of the investments since the change of control date.

The recognition of a Future Tax Asset associated with tax loss carryforwards is contingent upon a resumption of earnings from the real estate operations from full occupancy of its properties and from earnings on the generation of gains on investment sales in the future. Volatility in the market price of securities affects the calculation of the unrealized gain that in turn affects the determination of the Future Tax Asset to be recognized. The decline in the unrealized gains in excess of the tax basis of the Company's investments since the change of control and a lack of stable earnings history from real estate operations to provide reasonable assurance of sufficient taxable earnings in the future has necessitated a reduction in the recognition of the future tax asset by $1.4-million in the 4th quarter.

On November 18, 2005, Mr. Albert Cohen conveyed his shareholding to his three children. The conveyance was done for estate and tax planning purposes. This conveyance is not considered a change in control for income tax purposes and accordingly, further valuation considerations are not required.

Capital Requirements and Liquidity

At April 7, 2006, the Corporate segment had utilized $9.2-million of its $10-million credit availability with its banker to fund investment purchases. The credit line expires on July 31, 2006. The Company anticipates that the credit facility would be renewed on an annual basis. At April 7, 2006, the Company had $0.1-million in cash,

$44.0-million, at a quoted price, of highly marketable investments and a $2.1-million note receivable. The note receivable is expected to provide $0.6-million from principal and interest payments per year for the next three years.

The Company has arranged for borrowing by way of a brokerage margin account with its broker, RBC Dominion Securities that provides for a borrowing capacity of 50% of the market value of marketable securities on hand. At April 7, 2006, the available borrowing capacity was $7.0-million. The borrowing under this credit facility at January 28, 2006 was nil and at April 7, 2006 it was $2.0-million.

On January 3, 2006 the Company provided notice that it intends to purchase 765,799 of its Common shares under a Normal Course Issuer bid until January 5, 2007. The maximum cash requirement, should the Company decide to purchase all of the Common shares referred to in the Normal Course Issuer Bid, could be approximately $2-million. Funding of this bid would be by drawing on its cash resources or by the sale of investments. However, the Company is not obligated to purchase any shares for cancellation. At April 7, 2006, 23,000 shares were purchased for cancellation at a cost of $61,130.

Contractual Obligations

At January 28, 2006, contractual obligations of the continuing operations are summarized as follows:

		Payments due by period ($000's)			
	Total	less than 1 year	1-3 years	4-5 years	after 5 years
Sub-leases [(1)]	1,840	925	761	154	—
Operating leases	31	16	14	1	—
Other obligations	68	11	14	14	29
Total obligations	1,939	952	789	169	29

[(1)] The Company's subsidiary, Gendis Realty Inc. ('GRI'), has six agreements to sub-lease premises to Saan, the Company's former subsidiary. GRI retains ultimate responsibility to the landlord for the payment of amounts under the lease agreements should the sub-lessee fail to pay. Included in the terms of the agreement for the sale of Saan, GRI has conceded the right for Saan to renew the leases at each expiry term, subject to an acceptable indemnity to GRI. The Company considers these leases to have an intrinsic value, due to the location, low rental rates and lengthy renewal options, which GRI may be able to realize by securing another tenant should Saan decide to exit the location.

Outstanding Share Data

At April 7, 2006 there were 15,292,986 Common shares outstanding with a stated capital of $16,075,616. The Company purchased 23,000 common shares for cancellation under its Normal Course Issuer Bid. The Normal Course Issuer Bid expires January 5, 2007.

Summary of Quarterly Results

The following is a summary of information for the eight most recently completed quarters:

Quarters Ended (in thousands of dollars except per share)	Total Revenue	Net Earnings (Loss)	Net Earnings (Loss) per Share Basic and Diluted
January 28, 2006			
Continuing operations	1,725	27	nil
January 29, 2005			
Continuing operations	419	(331)	(0.02)
Discontinued operations			
Operations	43,901	(899)	(0.06)
Gain (loss) on the sale of real estate assets		(1,485)	(0.10)
Gain (loss) on sale of the Retail segment		3,573	0.23
Total	44,320	858	0.05
October 25, 2005			
Continuing operations	464	46	0.01
October 29, 2004			
Continuing operations	525	(82)	(0.01)
Discontinued operations			
Operations	72,180	(3,103)	(0.20)
Gain on the sale of real estate assets		8,164	0.53
Provision for impairment of net assets of the Retail segment to fair value		(38,049)	(2.48)
Total	72,705	(33,070)	(2.16)
July 30, 2005			
Continuing operations	2,198	4,259	0.28
July 31, 2004			
Continuing operations	527	(69)	—
Discontinued operations	71,313	(2,319)	(0.16)
Total	71,840	(2,388)	(0.16)
April 30, 2005			
Continuing operations	964	374	0.02
May 1, 2004			
Continuing operations	510	(183)	(0.01)
Discontinued operations	56,743	(10,109)	(0.66)
Total	57,253	(10,292)	(0.67)

Selected Annual Information for the Last Three Years

(in thousands of dollars - except per share)	January 28, 2006	January 29, 2005	January 31, 2004
Revenue – continuing operations	5,351	1,981	1,956
Net earnings (loss) before discontinued operations	4,706	(665)	(2,763)
Earnings (loss) per share before discontinued operations – basic and diluted	0.31	(0.04)	(0.18)
Net earnings (loss)	4,706	(44,892)	(9,017)
Earnings (loss) per share – basic and diluted	0.31	(2.93)	(0.59)
Total assets	78,218	65,710	156,187
Long-term liabilities	—	—	25,853
Dividends per share	—	—	—

Critical Accounting Estimates

Income taxes are determined using the asset and liability method of accounting, which recognizes future tax assets and liabilities based on the differences between the accounting and the tax basis of assets and liabilities. Future taxes are measured at the income tax rates expected to apply when the asset is realized or when the liability settled. Assumptions are required to determine the provision for income taxes, including the resolution of tax disputes. The Company currently has significant differences resulting from non-capital loss carry forwards that have the potential to reduce taxable income in the future. A future tax asset has been recognized by the Company as Management has determined that it is more likely than not that a portion of the non-capital loss carry forwards will be realized. Management exercises judgment in considering future earnings projections. Accordingly, the Company would recognize future tax assets as taxable earnings are achieved in the future.

The Company is in dispute with the Canada Revenue Agency concerning income tax on the sale of shares of an investment in fiscal 1996, which was assessed in fiscal 2002. The Company has filed a notice of objection with the Canada Revenue Agency, has made application to the Courts on certain jurisdictional matters and believes that it has substantial arguments to support its original filing position. On July 27, 2004, the Manitoba Court of Queen's Bench decided that the taxing authority had the power to issue a tax assessment concerning income tax on the transaction. The Company appealed that decision to the Manitoba Court of Appeal, which heard the matter in November 2005. The Company awaits the decision of the Manitoba Court of Appeal. Management has assessed the merits of its position in consultation with legal counsel. It is Management's judgment that the Company will ultimately prevail in this matter.

The carrying value of long-lived assets is assessed for impairment when the undiscounted future cash flows from its use and eventual dispositions are not sufficient to recover the asset's carrying value. An impairment loss is recognized based on the excess of the carrying amount of the real estate asset over its fair value. The determination of anticipated cash flows is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Fair value is determined based on the greater of applying a capitalization rate to the expected cash flow from the property and an expected sale value, net of selling costs of a vacant property. The capitalization rate selected would be typical for properties of a similar type and location. Estimates of sales value are obtained from knowledgeable personnel in the real estate industry.

The investment in the note receivable from Saan is assessed for impairment based on an assessment of Saan's ability to make principal and interest payments. In May 2005, Saan emerged from creditor protection. However, scheduled payments were not received as Saan experienced delays in negotiating with its primary lender to convert its restrictive debtor in possession financing to an emergence financing. In January 2006, Saan achieved re-financing arrangements with all of its lenders.

Determination of the Company's pension asset and expense are dependent on the assumptions used in calculating these amounts. The assumptions are determined by Management and are reviewed by Management annually and by

its actuary tri-annually. These assumptions include the discount rate, the rate of compensation increase and the expected long-term rate of return on pension plan assets. Actuarial assumptions for mortality and employee turnover rates are based on standard tables, adjusted as necessary to reflect the Company's experience in prior years and reflect actual provisions of the pension plan. Expected trends in rates used are considered in determining the assumptions. Differences between actual experience and the assumptions will result in increases or decreases in the Company's pension expense in future years.

Recently Issued Accounting Pronouncements

The Canadian Institute of Chartered Accountants pronouncements on Financial Instruments would become effective for the Company commencing the 1st quarter ending April 30, 2007. The Company has chosen not to adopt the pronouncements early, for the 1st quarter ending April 30, 2006. The principal effect of the application of the pronouncements is that the Company would present its investments in equity securities on the balance sheet at market. Certain of the Company's equity investments would be designated as "Held for Trading." The initial difference between the carrying value and the market value of these investments would be recorded as an adjustment to beginning Retained Earnings. Subsequent changes in market value of these investments would be presented in Net Earnings for the period. Certain of the Company's equity investments would be designated as "Available for Sale." The initial difference between the carrying value and the market value of these investments would be presented as an adjustment to beginning Accumulated Other Comprehensive Income, a component of Shareholders' Equity. Subsequent changes in market value of these investments would be presented in Other Comprehensive Income for the period. Additionally, gains or losses on the subsequent sales of these investments would be recorded in Net Earnings for the period with an offset to Other Comprehensive Income for the period.

RESPONSIBILITY FOR FINANCIAL REPORTING

Management of the Corporation is responsible for the consolidated financial statements and all information contained in the Annual Report. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada (GAAP). Significant accounting policies are described in Note 2 to the consolidated financial statements. Management exercised its best judgment in selecting appropriate accounting policies and providing estimates as part of the assurance that transactions are part of the reporting process. Management maintains a system of accounting and administrative controls that provide reasonable assurance that transactions are appropriately authorized, assets safeguarded and financial records maintained, in order to provide relevant, reliable and timely financial information. Management considers financial information presented in the Annual Report to be consistent with the consolidated financial statements.

The Company's Board of Directors has appointed an Audit Committee consisting of three directors who are not executive officers or employees of the Corporation. The Board of Directors has delegated responsibility for the oversight of the financial reporting process to the Audit Committee. The Audit Committee meets periodically with management and the independent auditors to review the performance of their respective responsibilities and to discuss accounting policy and financial reporting matters. The Audit Committee assesses the audit plan of the independent auditors, the audit report and the results of the audit findings. The Audit Committee provides unrestricted access to the independent auditors to discuss audit and related findings on the integrity of the Corporation's financial reporting process, and the adequacy of the system of accounting and administrative controls. The Audit Committee provides a recommendation to the Board of Directors on the approval of the annual consolidated financial statements, annual report and the re-appointment of the independent auditors. The Audit Committee also reviews the annual Management's Discussion & Analysis, the interim consolidated financial statements and interim Management's Discussion & Analysis.

ALBERT D. COHEN
President, Chief Executive Officer
& Chairman of the Board of Directors

ERNEST B. REINFORT
Vice-President, Finance
& Comptroller

April 7, 2006

AUDITORS' REPORT TO THE SHAREHOLDERS OF GENDIS INC.

We have audited the consolidated balance sheet of Gendis Inc. as at January 28, 2006 and January 29, 2005 and the consolidated statements of earnings (loss) and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at January 28, 2006 and January 29, 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Winnipeg, Manitoba
April 7, 2006

PricewaterhouseCoopers LLP
Chartered Accountants

GENDIS INC.

CONSOLIDATED BALANCE SHEETS

AS AT JANUARY 28, 2006 AND JANUARY 29, 2005

(thousands of dollars)

	2006 $	2005 $
ASSETS		
CURRENT ASSETS		
Cash and equivalents	95	3,235
Receivables	265	530
Note receivable – current portion (note 5)	382	—
Advance held in escrow (note 5)	—	2,000
Prepaid expenses	203	109
	945	5,874
INVESTMENTS (note 4)	33,306	18,844
NOTE RECEIVABLE (note 5)	1,693	—
DEPOSIT ON INCOME TAX REASSESSMENT (note 10)	28,361	28,361
PROPERTY AND EQUIPMENT (note 6)	11,066	11,431
FUTURE TAX ASSET (note 10)	2,847	1,200
	78,218	65,710
LIABILITIES		
CURRENT LIABILITIES		
Credit facilities (note 7)	7,985	—
Accounts payable and accrued liabilities	1,039	1,113
Income and capital taxes payable	333	106
	9,357	1,219
COMMITMENTS AND CONTINGENCIES (note 11)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 9)	16,100	16,100
RETAINED EARNINGS	52,761	48,391
	68,861	64,491
	78,218	65,710

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS

ALBERT D. COHEN
Director

JAMES E. COHEN
Director

GENDIS INC.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND RETAINED EARNINGS
FOR THE YEARS ENDED JANUARY 28, 2006 AND JANUARY 29, 2005
(thousands of dollars, except per share data)

	2006 $	2005 $
REVENUE		
Investment (note 4)	4,454	1,629
Real estate rental	897	352
	5,351	1,981
EXPENSES		
Property and administrative expenses	3,017	2,416
Amortization of property and equipment	332	352
Interest and other finance expense	106	214
	3,455	2,982
EARNINGS (LOSS) BEFORE THE UNDERNOTED	1,896	(1,001)
Gain on sale of investments	1,241	—
Restructuring credits (note 11)	—	761
Impairment of real estate properties (note 6)	(87)	(767)
EARNINGS (LOSS) BEFORE INCOME TAXES	3,050	(1,007)
INCOME TAX (PROVISION) RECOVERY (note 10)		
Future tax	1,647	366
Current tax	9	(24)
Income tax recovery	1,656	342
EARNINGS (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	4,706	(665)
DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS (note 3):		
Earnings on operations of real estate held for sale	—	116
Gain on sale of real estate held for sale	—	6,679
Loss on operations of the Retail segment held for sale	—	(16,546)
Loss on disposal of Retail segment	—	(34,476)
EARNINGS (LOSS) FOR THE YEAR	4,706	(44,892)
Refundable dividend taxes	(336)	—
RETAINED EARNINGS – beginning of year	48,391	93,283
RETAINED EARNINGS – end of year	52,761	48,391
EARNINGS (LOSS) PER SHARE – Basic and Diluted		
Continuing operations	0.31	(0.04)
Disposal of long-lived assets and discontinued operations		
Real estate held for sale	—	0.44
Retail segment	—	(3.33)
	0.31	(2.93)

GENDIS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JANUARY 28, 2006 AND JANUARY 29, 2005
(thousands of dollars)

	2006 $	2005 $
CHANGES IN CASH POSITION		
By operations		
Earnings (loss) from continuing operations for the year	4,706	(665)
Items not affecting cash:		
Amortization of property and equipment	332	352
Future income taxes	(1,647)	(366)
Gain on sale of investments	(1,241)	—
Impairment of real estate properties	87	767
Restructuring credits	—	(130)
Cash flow from earnings	2,237	(42)
Net decrease (increase) in working capital	249	(1,028)
Cash flow by operating activities from:		
Continuing operations	2,486	(1,070)
Disposal of long-lived assets and discontinued operations		
Real estate held for sale	—	1,656
Retail segment	—	(13,013)
	2,486	(12,427)
By investing activities		
Investments acquired	(15,874)	(3,081)
Proceeds on sale of investments	4,425	—
Excess of distributions over investment income	(1,772)	361
Expenditures for property and equipment	(54)	—
Cash flow by investing activities from:		
Continuing operations	(13,275)	(2,720)
Disposal of long-lived assets and discontinued operations		
Real estate held for sale	—	14,032
Retail segment	—	(5,941)
	(13,275)	5,371
By financing activities		
Net advances from credit facilities	7,985	—
Refundable dividend tax	(336)	—
Cash flow by financing activities from:		
Continuing operations	7,649	—
Discontinued operations - Retail segment	—	5,320
	7,649	5,320
DECREASE IN CASH & CASH EQUIVALENTS	(3,140)	(1,736)
NET CASH & CASH EQUIVALENTS – beginning of year	3,235	4,971
NET CASH & CASH EQUIVALENTS – end of year	95	3,235

1. NATURE OF OPERATIONS

The Corporation invests in marketable securities and operates commercial real estate properties. Until its sale on December 16, 2004, the Corporation also operated a Retail segment of junior department and family clothing stores across Canada in the retail merchandising industry. The retail outlets had a broad geographic base and operated under the names SAAN and Red Apple Clearance Centre.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The fiscal year represents the fifty-two week period from January 30, 2005 to January 28, 2006. Comparative figures are for the fifty-two week period from February 1, 2004 to January 29, 2005. The fiscal year ends on the last Saturday in January of a year.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation, Gendis Realty Inc., a wholly owned subsidiary, and a former subsidiary, Saan Stores Ltd., until the sale date.

(c) Disposal of long-lived assets and discontinued operations

Long-lived assets are classified as held for sale when specific criteria under Canadian Institute of Chartered Accountants Handbook Section 3475 are met. Assets held for sale are measured at the lower of their carrying amounts and fair values less disposal costs and are no longer amortized. Assets and liabilities classified as held for sale are reported separately on the balance sheet. A component of the Corporation that is held for sale is reported as discontinued operations if the operations and cash flows of the component will be eliminated from the ongoing operations as a result of the disposal transaction, and the Corporation will not have a continuing involvement in the operations of the component after the disposal transaction.

(d) Earnings per share

Basic earnings per share are calculated using the daily weighted average number of shares outstanding during the respective fiscal years.

Diluted earnings per share is calculated using the daily weighted average number of shares that would have been outstanding during the year had all potential common shares been issued at the beginning of the year or when the underlying option was granted, if later.

(e) Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires the Corporation to make estimates and assumptions that affect reported amounts of assets and liabilities, revenue and expenses, and the disclosure of contingencies. Future events could alter such estimates in the near future.

The Corporation has estimated the useful lives of property and equipment and the recoverable value of property and equipment based on historical, industry trends and existing competitive factors. Significant changes in these factors could result in material impairment in the reported amounts for these assets.

(f) Cash and equivalents

Cash includes commercial paper investments with maturities of less than three months and other highly marketable investments.

(g) Investments

Portfolio equity investments are carried at the lower of carrying value or market value when the decline in market value to below carrying value is considered to be other than temporary. The investment income and the carrying value of the investment in flow-through entities, Fort Chicago Energy Partners LLP ('Fort Chicago'), a limited partnership and Thunder Energy Resources ('Thunder'), an income trust, are increased by the Corporation's share of earnings of the investment. Cash distributions received from the investment reduces the carrying value of the investment. Investment income and the carrying value of the investment are also affected by the non-proportionate participation by the Corporation in the investment's capital transactions.

(h) Note receivable

The note receivable is carried at the lower of unamortized carrying value or a net realizable value based on an assessment of the debtor's ability to make principal and interest payments.

(i) Property and equipment and amortization

Property and equipment are recorded at the lower of cost less accumulated amortization and net recoverable amount. A write-down to an estimated net recoverable amount is at management's best estimate considering the most probable set of economic conditions anticipated to prevail in the market.

Amortization is provided on a straight-line basis over the estimated useful life at the following annual rates:

Buildings	3%
Furniture, fixtures and equipment:	
Office	7%
Computer:	
Equipment	25%
Software	50%

(j) Pension plans

The Corporation maintains an employee contributory defined benefit pension plan and a defined contribution pension plan. All employees who meet certain eligibility requirements must participate in one of the plans.

For the defined benefit plan, the cost of pensions is determined using the projected benefit method pro rated on service, market interest rates and management's best estimates on expected plan investment performance, salary escalation and retirement ages of plan members. A modified market method is used to value plan assets for the purposes of calculating the expected return on plan assets. Under this method, the quoted market value is the underlying basis, but unrealized gains and losses are averaged over a five-year period. Cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or modified market value of the plan are amortized over the estimated service life of the members of the plan.

For the defined contribution plan, the cost of pensions is the Corporation's contribution to the plan.

(k) Financial instruments

The carrying value of receivables, accounts payable and accrued liabilities approximate fair values due to their short-term maturity.

The Corporation is exposed to a credit risk from loans advanced to debtors and from repudiation of commitments from sub-lessees under sub-leases.

The Corporation is exposed to a concentration of credit risk as 90% of the Corporation's commercial retail unit area for lease is rented to one tenant, Saan Stores Ltd., for its store operations.

The Corporation is exposed to market risk on its investments. The security of the investments trade on a public stock exchange and, accordingly, the Corporation is subject to quoted market price volatility.

The Corporation is exposed to interest rate risk on its credit facilities. The interest rate is based on a bank's prime lending rate and, accordingly, the Corporation is subject to interest rate volatility.

(l) Future income taxes

The Corporation utilizes the liability method of accounting for income taxes under which future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

(m) Revenue recognition

Investment income includes interest on debt securities and the proportionate share of earnings of flow-through entities, comprised of limited partnerships and income trusts. Investment income also includes the affect of the non-proportionate participation by the Corporation in the flow-through entities' capital transactions.

Real estate rental revenue includes base rent, percentage participating rents and recoveries of operating expenses, including property taxes. Percentage participating rents are recognized when specified sales targets have been met.

3. DISPOSAL OF LONG LIVED ASSETS AND DISCONTINUED OPERATIONS

(a) During the year ended January 29, 2005, following periods of poor financial performance from competition increasingly encroaching on the Retail segment's traditional markets and following the lack of success from initiatives to regain market share, the Corporation decided to initiate the solicitation of offers from prospective purchasers for its Retail segment while assessing a retail consultant's independent assessment of the strategic initiatives of its Retail segment and the costs and resources required to return the business to profitability. The Corporation concluded that it was not in the best interest of its shareholders to commit additional financial and other resources beyond the $10-million advanced to counter the significant deterioration of cash flows from the operations of the Retail segment. Accordingly, the Corporation decided to sell the Retail segment, with a purchaser assuming the responsibility of sponsoring the Corporation's Defined Benefit Pension Plan. The Corporation commenced negotiating with several prospective purchasers and closed the sale transaction for the Retail segment along with the transfer of the sponsorship of the Pension Plan on December 16, 2004.

Information on the Corporation's discontinued Retail segment and accrued pension asset is as follows:

The loss on disposal of the Retail segment was determined as follows:

	2005 ($000's)
Assets	
Cash	—
Inventory, receivables and other current assets	67,064
Property and equipment	22,414
Accrued pension asset	4,350
	93,828

	2005 ($000's)
Liabilities	
Payables and other current liabilities	27,949
Congress credit facility debt	30,328
Capital lease obligations – long-term	1,374
	59,651
Net assets, at carrying value	34,177
Proceeds	(375)
Transaction costs	2,936
Loss on disposal before income taxes	36,738
Recovery of future income tax	2,262
Loss on disposal	34,476

The results of operations of the Retail segment for the period to the sale date is as follows:	2005 ($000's)
Revenue	243,824
Costs and expenses:	
Cost of goods sold, selling, general & administrative expense	253,046
Amortization of property & equipment	5,718
Interest and finance costs	1,541
	260,305
Loss before income tax	16,481
Provision for income taxes	65
Loss for the period	16,546

(b) During the year ended January 29, 2005, the Corporation designated a parcel of five of its real estate properties comprising a city block in downtown Winnipeg, Manitoba to be a disposal group held for sale. The sale transaction closed in the fourth quarter of the year. Transaction costs were incurred to compensate tenants for lease termination and relocation costs, legal fees, and the cost of securing additional property, including municipal back lanes to complete the site to the purchaser's specifications.

The gain on disposal of the Real Estate held for sale was determined as follows:

	2005 ($000's)
Proceeds	16,000
Transaction costs	1,968
Net proceeds	14,032
Carrying value of the properties	5,985
Gain before income tax	8,047
Provision for future income tax	1,368
Net gain after tax	6,679

The results of operation of the Corporation's real estate assets held for sale are as follows:	2005 ($000's)
Revenue	393
Expenses:	
Property and administrative expense	165
Amortization of property	52
	217
Earnings before income tax	176
Provision for future income tax	60
Earnings after income tax	116

4. INVESTMENTS

(a) Investments are comprised of the following:

	Number of shares/units (000's)		Market Value ($000's)		Carrying Value ($000's)	
	2006	2005	2006	2005	2006	2005
Flow-through entities						
Fort Chicago	2,495	2,383	28,819	28,119	22,004	17,891
Thunder Energy Trust	415	—	4,798	—	4,456	—
Other equity investments						
Ember Resources	505	—	3,889	—	3,750	—
Opti Canada	37	50	1,665	1,002	1,032	953
Other investments			1,917	—	2,064	—
			41,088	29,121	33,306	18,844

(b) Investment income represents:

	2006 ($000's)	2005 ($000's)
Interest income	111	44
Investment income (loss) from flow-through entities:		
Fort Chicago	4,581	1,585
Thunder	(238)	—
	4,454	1,629

5. NOTE RECEIVABLE

	2006 ($000's)	2005 ($000's)
Note receivable	2,075	—
less current portion	382	—
	1,693	—

For the year ended January 29, 2005, the current assets of the Corporation included a $2-million deposit held in escrow. The Corporation agreed to advance $2.0-million, on a secured basis, to a former subsidiary, Saan Stores Ltd. at any time after April 1, 2005. The advance was subject to the borrower not being subject to any Companies' Creditors Arrangement Act stay of proceedings. Also, the borrower must provide evidence of solvency. By May 3, 2005, these conditions were satisfied and accordingly funds were advanced. Subsequently, Saan experienced delays in negotiating with its primary lender to convert its restrictive debtor in possession financing to an emergence financing. The primary lender did not permit Saan to make any payments to subordinate lenders until negotiations were resolved. On January 9, 2006, Saan concluded re-financing arrangements with all of its lenders. The note receivable is repayable $50,000 per month, principal and interest, commencing May 1, 2006. Any outstanding principal and interest is fully repayable on April 9, 2009. Interest is at the prime rate as established from time to time by the Royal Bank of Canada plus 1/2%.

6. PROPERTY AND EQUIPMENT

	Cost		Accumulated amortization		Net	
	2006 ($000's)	2005 ($000's)	2006 ($000's)	2005 ($000's)	2006 ($000's)	2005 ($000's)
Land	2,367	2,367	—	—	2,367	2,367
Buildings	16,472	16,472	7,859	7,459	8,613	9,013
Furniture, fixtures and equipment	661	607	575	556	86	51
	19,500	19,446	8,434	8,015	11,066	11,431

During the year ended January 28, 2006, the carrying value of certain land and buildings were written down by $87,000 (2005 - $767,000) as a consequence of rents, recoverable occupancy costs and renewal terms being renegotiated with the tenant. This resulted in a carrying value for the properties in excess of undiscounted cash flows expected to be received. The properties were written down to a fair market value based on the greater of applying a capitalization rate to the expected annual cash flow from the properties and the expected sale value, net of selling costs, if the properties were vacant. The capitalization rate selected was typical for properties of a similar type and location.

7. CREDIT FACILITIES

(a) A $10-million revolving credit facility with The Bank of Nova Scotia is collateralized by a pledge of marketable securities with a minimum market value of $20 million. The facility expires on July 31, 2006. Access to the facility may be by direct loan or by banker's acceptance of the Corporation's promissory note. The interest rate on direct loans is the prime rate as established from time to time by the bank. The fee on banker's acceptances is 0.9%. The interest rate on promissory notes is determined by the prevailing market conditions. At January 28, 2006, $8.0-million of the credit facility was utilized by way of banker's acceptances.

(b) The Corporation has arranged for borrowing by way of a brokerage margin account with a broker that provides for a borrowing capacity of 50% of the market value of marketable securities in the Corporation's account with the broker. The interest rate is the prime rate plus 0.75%. At January 28, 2006, the balance of the credit facility was nil.

8. ACCRUED PENSION ASSET

The sponsorship of the Corporation's defined benefit pension plan ('Old Plan') was assumed by the Retail segment upon the sale of the Retail segment on December 14, 2004. Entitlements of employees of the Retail segment and of retirees of all former subsidiaries of the Corporation will remain with the Old Plan. The Corporation is obligated to create and sponsor a separate defined benefit pension plan ('New Plan') for employees of Gendis Inc. and its retirees. An actuarial valuation has determined that at September 30, 2004, $1.6-million of pension benefit obligations and $1.8-million in related assets are to be transferred from the Old Plan to the New Plan. The transfer of assets to the New Plan is pending regulatory approval and accordingly, the amount of the transfer will include a proportionate share of earnings and expenses, and net of benefit payments for New Plan members made by the Old Plan from September 30, 2004 to the transfer date. At January 28, 2006, the transfer amount from the Old Plan to the New Plan is estimated at $2.0-million. Information on the New Plan, measured at January 28, 2006, and the Old Plan, measured at January 29, 2005 is as follows:

(a) Pension Plan Net Assets	2006 ($000's)	2005 ($000's)
Quoted market value – beginning of year	1,748	55,359
Investment income	130	3,667
Employee contributions	7	1,053
Employer contributions	22	—
Benefits, refund of contributions and administrative expenses	(127)	(5,065)
Assumption of Old Plan assets by Saan	—	(53,266)
Market related value – end of year	1,780	1,748
Quoted market value – end of year	2,014	1,799

The market related value of the pension plan net assets is based on quoted market values with unrealized gains and losses averaged over a five-year period.

Investment Categories of Pension Plan Assets	2006	2005
Cash and other net assets	7%	5%
Debt securities	16%	23%
Equity securities	77%	72%

Included in equity securities of the Old Plan is an investment of 517,100 (2004 – 517,100) common shares of the Corporation with a fair market value of $1,370,000 (2004 - $1,215,000).

(b) Pension Plan Benefit Obligations	2006 ($000's)	2005 ($000's)
Accrued benefit obligation – beginning of year	1,591	48,940
Accrued interest on benefits	85	3,138
Accrued benefits	26	1,866
Benefits and refund of contributions	(123)	(4,981)
Experience loss	51	1,192
Assumption of Old Plan obligations by Saan	—	(48,564)
Accrued benefit obligation – end of year	1,630	1,591

The most recent actuarial valuation of accumulated pension benefits was made as at September 30, 2004.

(c) Significant actuarial assumptions in measuring the Corporation's accrued benefit obligations	2006	2005
Discount rate	5.50%	6.50%
Expected long-term rate of return on pension plan assets	5.50%	6.50%
Rate of compensation increase	4.75%	2.35%

(d) The Corporation's Accrued Pension Asset

	2006 ($000's)	2005 ($000's)
Pension Plan surplus at market related values	150	157
Valuation allowance	(150)	(157)
Accrued pension asset	—	—

The valuation allowance represents the amount of surplus not recognized on the Corporation's balance sheet before the assumption of the sponsorship of the pension plan by the Retail segment.

(e) Calculation of the Corporation's Pension Expense

	2006 ($000's)	2005 ($000's)
Accrued benefits	26	1,866
Employee contributions	(7)	(1,053)
Accrued interest on benefits	85	3,138
Investment income – market related value	(130)	(3,667)
Experience gains or losses and administrative expenses	51	1,276
Change in valuation allowance	(7)	(1,560)
Pension expense from the defined benefit pension plan	18	—
Pension expense from the defined contribution pension plan	29	26
Pension expense	47	26

9. CAPITAL STOCK

(a) Authorized - The Corporation is authorized to issue an unlimited number of common shares.

(b) Common shares issued

	Number of Shares		Share Capital	
	2006	2005	2006 ($000's)	2005 ($000's)
	15,316,045	15,316,045	16,100	16,100

On January 3, 2006, the Corporation stated that it intends to purchase for cancellation up to 765,799 of its Common shares under a Normal Course Issuer Bid. During the year ended January 28, 2006, under a Normal Course Issuer Bid, no common shares were purchased for cancellation. The Normal Course Issuer Bid expires on January 5, 2007.

(c) On May 31, 2005, Mr. Albert D. Cohen acquired 3,349,996 Common shares of the Corporation and accordingly, assumed control of the Corporation with a 58.24% holding. On November 18, 2005, Mr. Albert D. Cohen conveyed 8,420,057 Common shares equally to his three children.

(d) Share option plans

The changes in the share options are as follows:	Number of Options		Weighted Average	
	2006	2005	2006 $	2005 $
Beginning of year	7,600	18,000	14.00	13.73
Forfeited	(7,600)	(10,400)	—	(13.54)
End of year	—	7,600	—	14.00

Information on the share options outstanding and exercisable by price is as follows:

Exercise price $	Number of Options 2006	Number of Options 2005	Weighted Average Contract Life (years) 2006	Weighted Average Contract Life (years) 2005
14.00	—	7,600	—	0.42

The share options expired on July 3, 2005.

(e) Earnings (loss) per share

	2006 ($000's)	2005 ($000's)
Numerator – Net earnings (loss)		
Continuing operations	4,706	(665)
Long-lived assets held for sale – real estate	—	6,795
Discontinued operations – Retail segment	—	(51,022)
	4,706	(44,892)
Denominator – Weighted average number of shares outstanding		
Basic	15,316	15,316
Dilutive effect of stock options	—	—
Weighted average number of shares outstanding - diluted	15,316	15,316

10. INCOME TAXES

(a) Income taxes on earnings (losses) vary from the amounts that would be computed by applying the combined federal and provincial statutory income tax rates to the earnings (losses) before income tax. The following is a reconciliation of the combined statutory income tax to the effective income tax:

	2006 ($000's)	2005 ($000's)
Statutory income taxes at 33.4% (2005 – 34.0%)	1,018	(342)
Non-deductible or taxable portion of capital gains or losses, investment income	(843)	(477)
Future tax assets recognized	(3,750)	—
Change in income tax rates	(91)	(34)
Large corporations tax	—	24
Limitation of deductible amounts	8	8
Foreign withholding taxes	158	13
Change in valuation allowance and other items	1,844	466
Continuing operations - income tax provision (recovery)	(1,656)	(342)
Discontinued operations		
Real estate held for sale	—	1,428
Retail segment	—	(2,197)
	(1,656)	(1,111)

In 2005, the change in valuation allowance and other items include a $600,000 charge related to the change in method of realizing tax benefits associated with temporary differences due to the disposition of the retail segment.

(b) At January 28, 2006, the Corporation has capital losses of $54,000 that may be applied to reduce capital gains indefinitely in the future. The Corporation also has $3.9-million of non-capital losses that are subject to expiry in 2014.

(c) Future income tax assets (liabilities) are comprised as follows:

	2006 ($000's)	2005 ($000's)
Non capital losses	1,333	2,869
Capital losses	9	1,017
Property and equipment	1,404	(1,099)
Investments	1,879	(1,601)
Other items	208	265
	4,833	1,451
Valuation allowance	(1,986)	(251)
	2,847	1,200

The change in control of the Corporation on May 31, 2005, had the following effect on the Corporation's tax basis of loss carry forwards and capital properties. The tax basis of the Corporation's investment in an inactive subsidiary company, which had not been previously recognized, was reduced to nil, creating significant capital losses. To utilize these capital losses, the Corporation elected to increase the tax basis of its investments and real estate. Approximately $3-million of capital loss carry forwards expired.

On November 18, 2005, the controlling shareholder conveyed his shareholding to his three children. The conveyance was done for estate and tax planning purposes. This conveyance is not considered a change in control for income tax purposes and accordingly, further valuation considerations were not required.

(d) During the year ended January 26, 2002, the Corporation received notices of assessment levying additional income taxes and interest on the sale by the Corporation of shares of Sony of Canada Ltd. in 1995. The Corporation has filed a notice of objection with the Canada Revenue Agency, has made application to the Courts on certain jurisdictional matters and believes that it has substantial arguments to support its original filing position. On July 27, 2004, the Manitoba Court of Queen's Bench decided that the taxing authority had the power to issue a tax assessment concerning income tax on the transaction. The Corporation has appealed the decision to the Manitoba Court of Appeal which heard the matter in November 2005. The Corporation has assessed the merits of its position in consultation with legal counsel and continues to believe that its position is strong in law.

The Corporation has paid the entire amount of the income taxes and interest in the amount of $28.4-million. Pending resolution of the appeal and Court proceedings, this amount is included as a recoverable item on the financial statements. If the Corporation is successful, this amount plus additional interest will be refunded. An unfavourable ruling once appeals have been exhausted would result in a charge to earnings of $28.4-million in a future period.

11. COMMITMENTS AND CONTINGENCIES

(a) At January 28, 2006, there are 4 (2005 - 6) locations where the Corporation has the primary obligation under a property lease, with a former subsidiary corporation being a sub-tenant of the Corporation. The Corporation has not accrued an amount for future lease costs as the Corporation expects to derive future benefits from these leases should the sub-lessor repudiate their commitments. Minimum annual rentals (exclusive of additional amounts based on percentage of sales, but inclusive of taxes, insurance and other occupancy charges) on long-term operating property leases, the longest of which will expire in the year 2010 are detailed below.

During the year ended January 28, 2006, rent paid on automotive leases and donation commitments amounted to $24,000 (2005 - $49,000). Minimum annual rentals in future years on long-term automotive operating leases and office equipment operating leases, the longest of which expires in the year 2008 and other commitments are detailed as follows.

Year ending January	Property Leases ($000's)	Other Leases & Commitments ($000's)
2007	925	27
2008	607	16
2009	154	12
2010	154	8
2011	—	7
thereafter	—	59
Total future minimum payments		129
Less imputed interest at 4.7%		30
Present value of minimum payments		99

(b) The restructuring credits represent recoveries from the Trustee of the Estate of Greenberg Stores Limited, a reduction to the provision for expenses and settlements with landlords on lease terminations.

(c) In connection with the disposition of assets, the Corporation has provided customary representations and warranties that range in duration. In addition, as is customary, the Corporation has agreed to indemnify the buyers of certain assets in respect of certain liabilities pertaining to events occurring prior to the respective sales relating to taxation, environmental, litigation and other matters. The Corporation is unable to estimate the maximum potential liability for these indemnifications as the underlying agreements often do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined.

(d) Subsequent to the Corporation selling its investment in Saan Stores Ltd. on December 16, 2004, Saan Stores Ltd. filed for creditor protection under the Companies' Creditor Arrangements Act and subsequent to that, obtained a stay of proceedings under the Bankruptcy and Insolvency Act. On March 17, 2005, a buying agent and importer to Saan Stores Ltd., filed a Statement of Claim in the Ontario Superior Court of Justice for $18-million against the Corporation and certain of its officers and directors. The buying agent and importer allege to have suffered damages by reason of wrongful and oppressive conduct. The supplier also alleges misrepresentation and breach of fiduciary duties. In a Decision released December 29, 2005, the Ontario Superior Court of Justice found that Ontario was not a convenient forum for the hearing of this matter. On April 21, 2005, two suppliers to Saan Stores Ltd. served a Statement of Claim In Manitoba Court of Queen's Bench that named the Corporation and its directors as defendants, for $1.1-million and $1.3-million respectively for amounts said to be owed and unpaid by a former subsidiary of the Corporation. The suppliers also claim general damages and punitive damages, and damages arising from alleged misrepresentation and breach of fiduciary duties. On December 13, 2005, the Manitoba Court of Queen's Bench ordered that the law firm acting for the two suppliers be removed as solicitors of record for the plaintiffs in these proceedings. On September 2, 2005, an Application in the Ontario Superior Court of Justice was made by one of the landlords against the Corporation's subsidiary, Gendis Realty Inc. seeking $0.5-million on the account of rent and occupancy charges.

The Corporation considers that these claims are without merit and accordingly, a provision for settlement has not been recorded. The Corporation is also involved in various other legal matters. The resolution of these other matters is not expected to have a material adverse effect on the Corporation's financial position, results of operations or cash flows.

(e) The Corporation has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay to counter parties. For claims for the period prior to January 31, 2005, the Corporation had $15-million in directors' and officers' liability insurance coverage. For claims for the

period to January 31, 2005 to January 28, 2006, the Corporation had $1-million in directors' and officers' liability insurance coverage. For claims subsequent to January 28, 2006, the Corporation decided to self insure.

12. SEGMENT INFORMATION – Continuing Operations

The Corporation has identified the following reportable segments. The Realty segment consists of 8 commercial retail properties with an area for lease of 94,000 sq. ft. and 1 warehouse & distribution facility of 384,000 sq. ft. Approximately 90% of the commercial retail property area for lease is leased to Saan Stores Ltd., a former subsidiary. The Corporate segment is primarily involved in investing in equity securities. All revenues and operating expenses pertain exclusively to Canada. Intersegment revenue is rent, management fees and interest. Intersegment revenue for last year includes $1.8-million of rent and interest from the discontinued Retail Operations.

	period	Realty	Corporate	Intersegment Elimination	Total
Revenue	2006	911	4,593	(153)	5,351
	2005	2,054	1,858	(1,931)	1,981
Expenses & amortization	2006	1,664	1,819	(134)	3,349
	2005	1,121	1,647	—	2,768
Interest	2006	19	106	(19)	106
	2005	135	215	(136)	214
Gain on sale of investments	2006	—	1,241	—	1,241
	2005	—	—	—	—
Unusual items	2006	(87)	—	—	(87)
	2005	(267)	261	—	(6)
(Provision for) recovery of Income taxes	2006	1,424	232	—	1,656
	2005	(212)	554	—	342
Net earnings (loss) - Continuing Operations	2006	565	4,141	—	4,706
	2005	319	811	(1,795)	(665)
Total Assets	2006	12,505	66,532	(819)	78,218
	2005	11,802	54,235	(327)	65,710

13. SUPPLEMENTAL INFORMATION TO THE STATEMENT OF CASH FLOWS

The following is supplemental information for continuing operations:

	2006 ($000's)	2005 ($000's)
Interest paid	120	215
Income taxes paid	116	34

14. SUBSEQUENT EVENT

Subsequent to the year ended January 28, 2006, the Corporation purchased and cancelled 23,000 of its Commons shares for $61,130.

CORPORATE & SHAREHOLDER INFORMATION

GENDIS INC. BOARD OF DIRECTORS

Albert D. Cohen, O.C., LL.D
President, Chief Executive Officer and Chairman
Gendis Inc.

James E. Cohen
Executive Vice-President
Gendis Inc.

Robert M. Chipman
Chairman
National Leasing Group

Jerry L. Gray, Ph. D
Dean Emeritus, I.H. Asper School of Business
University of Manitoba

Lawrence O. Pollard
Chairman
Pollard Banknote Limited

Gordon B. Webster, FCA
Corporate Director

GENDIS INC. CORPORATE OFFICERS

Albert D. Cohen, O.C., LL.D
President, Chief Executive Officer and Chairman

James E. Cohen
Executive Vice-President

N. Paul Cloutier
Vice-President, Secretary & General Counsel

Ernest B. Reinfort, CA
Vice-President, Finance & Comptroller

SHAREHOLDER INFORMATION

Corporate Head Office
1370 Sony Place
Winnipeg, Manitoba
R3T 1N5

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CIBC Mellon Trust
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Web site: www.cibcmellon.com

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One Lombard Place
Winnipeg, Manitoba
R3B 0X6

Banker
The Bank of Nova Scotia

Exchange Listing
Toronto Stock Exchange
Common shares of the Company trade under the symbol: GDS

Investor Relations
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R3C 3C3
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